

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2015/2016

BBF 3044 – CORPORATE FINANCIAL MANAGEMENT

(All sections / Groups)

02 MARCH 2016

9:00 – 11:00 a.m

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 Questions only.
2. Attempt **FOUR** out of **FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific and financial calculators.
4. Please write all your answers in the Answer Booklet provided.

QUESTION 1

(a)

VENUS Company is analyzing a project and the details as below:

- Initial cost of RM102,000, cash inflows of RM65,000 in year one and RM74,000 in year two.
- This project is an extension of the firm's current operations and thus is equally as risky as the current firm.
- This company uses only debt and common stock to finance its operations and maintains a debt-equity ratio of 0.45.
- The aftertax cost of debt is 4.8 %, the cost of equity is 12.7 %, and the tax rate is 35 %.

What is the projected net present value of this project?

(10 marks)

(b)

State of economy	Probability state of economy	Returns if state occurs		
		Stock AA	Stock BB	Stock CC
Boom	5%	17%	6%	22%
Normal	55%	8%	10%	15%
Recession	40%	-3%	19%	-25%

The portfolio consists of stock AA, BB and CC. 25% of the portfolio is invested in stock AA and 40% is invested in stock CC.

- What is the expected return of the portfolio? (5 marks)
- What is the variance of this portfolio? (5 marks)
- What is the standard deviation of this portfolio? (3 marks)
- How do you interpret your answers? (2 marks)

(Total: 25 marks)

Continued ...

QUESTION 2

(a)

Short-term finance is mainly concerned with the analysis of decisions that affect current assets and current liabilities. Short-term financial decisions usually involve cash inflows and outflows that occur within a year or less. Recently, you have been promoted to Inventory Manager and you are fully responsible for the management of short-term finance of the company. What type of main questions fall under your management?

(6 marks)

(b)

LUCKY Corporation is planning to start a new product and the details are as below:

- This new project will cost RM630,000, have a 5-year life, and have no salvage value. The depreciation is straight-line to zero.
- Sales are projected at 160 units per year, price per unit = RM24,000, variable cost per unit = RM12,000, and fixed costs = RM283,000 per year.
- The required return is 11% and the relevant tax rate is 34%.
- Based on the owner's experience, he thinks the unit sales, variable cost, and fixed cost projections given here are probably accurate to within $\pm 9\%$.

(i) Calculate the unit sales, variable cost and fixed cost projections for best-case scenario.

(6 marks)

(ii) Calculate the Net Income, Operating Cash Flow and NPV for best-case scenario.

(13 marks)

(Total: 25 marks)

QUESTION 3

(a)

These are the latest financial statements of ROCKY Corporation:

ROCKY Corporation Income Statement 2016 (in RM)	
Net sales	16,800
Cost of goods sold	11,200
Depreciation	1,650
Earnings before interest and taxes	3,950
Interest paid	350
Taxable income	3,600
Taxes	1,224
Net income	2,376
Dividends	950

Continued ...

ROCKY Corporation Balance Sheet 2016 (in RM)			
Cash	1,040	Payable	3,300
Receivables	650	Long-term debt	2,780
Inventory	7,500	Common stock	10,000
Total	9,190	Retained earnings	4,510
Net fixed assets	11,400		
Total assets	20,590	Total liabilities & equity	20,590

- (i) ROCKY Corporation does not want to incur any additional external financing.

The dividend payout ratio is constant. What is the firm's maximum rate of growth?

(3 marks)

- (ii) If ROCKY Corporation decides to maintain a constant debt-equity ratio, what rate of growth can it maintain assuming that no additional external equity financing is available?

(3 marks)

- (iii) Assume that ROCKY Corporation is currently operating at 95% of capacity and that sales are projected to increase to RM20,000. What is the projected addition to fixed assets?

(7 marks)

(b)

You have been appointed as a new Corporate Strategist of Eco World Development Group Berhad, a public listed Malaysian company involved mainly in property development.

Your first task is to brief the Board of Directors on the incoming strategies or mechanisms that will be used by Eco World in handling its main issues of corporate finance.

(12 marks)

(Total: 25 marks)

Continued ...

QUESTION 4

(a)

“Dividend Increases versus Dividend Decreases”

Provide constructive comments on the above statement. Comments given should comprise of both aspects. (10 marks)

(b)

Imagine yourself as a Credit Assessor of an established corporation. In forming a new credit policy to be used by the corporation, examine the factors that must be considered thoroughly in order to avoid any negative consequences in the future. (15 marks)

(Total: 25 marks)

QUESTION 5

(a)

Large multinational firms may need to manage the exchange rate risk associated with several different currencies. Design a brief mechanism on handling different types of exchange rate risk or exposure. (15 marks)

(b)

“Founders of Asia's largest budget carrier, AirAsia, are sounding out investors to take the company private in a management-led buyout, after a critical research report knocked its shares to a seven-year low, people familiar with the matter said.

AirAsia co-founder Tony Fernandes is talking to banks to secure financing for the transaction, which could be launched over the next few months, said the people, who did not want to be identified as the discussions were confidential.” (www.cnbc.com, 6th October 2015)

Based on the above information, defend the news as an upcoming potential example of a going-private transactions. (10 marks)

(Total: 25 marks)

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